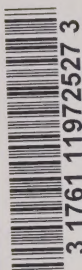


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Canadian Welfare Council Staff Submission on
Unemployment Insurance in the 70's
to the House of Commons Standing Committee on
Labour, Manpower, and Immigration

DEPARTMENT OF URBAN & REGIONAL PLANNING

UNIVERSITY OF TORONTO

230 COLLEGE STREET TORONTO, M5S 1A1, ONT.

Ottawa October 1970

CANADIAN WELFARE COUNCIL STAFF SUBMISSION ON

UNEMPLOYMENT INSURANCE IN THE 70'S

TO THE HOUSE OF COMMONS STANDING COMMITTEE ON
LABOUR, MANPOWER AND IMMIGRATION

The Canadian Welfare Council is a national non-profit organization made up of about 200 people and various agencies, business corporations and labour organizations, church and civilian groups, and about 1,000 volunteers, concerned in policies and programs which affect all areas of human and social development. Through planning, research, education and public education, the Council seeks to improve the people of Canada social, economic, manpower and human resources, government and management, that are adequate in nature, of high quality and actively implemented. The Council's research and statements influence the government's public policy decisions and.

OCTOBER 1970

55 Parkdale Avenue

Ottawa, Ontario

DEPARTMENT OF URBAN & REGIONAL PLANNING

UNIVERSITY OF TORONTO

230 COLLEGE STREET TORONTO, M5S 1A1, ONT.

THE CANADIAN WELFARE COUNCIL

The Canadian Welfare Council is a national nongovernment organization made up of some 500 public and private agencies, business corporations and labour organizations, church and citizen groups, and about 1,300 individuals, interested in policies and programs which affect individual well-being and social development. Through planning, consultation, research and public education, the Council seeks to promote for the people of Canada social security measures and social services, government and nongovernment, that are adequate in extent, of high quality and soundly administered. The Council's briefs and statements endeavour to influence public policy towards this end.

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Appendix: Extracts from Social Policies for Canada, Part I

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Federal Government Participation in Financing

This paragraph was based on the following statement in Unemployment Insurance in the 70's (p. 25): "... it is proposed that the cost of the new plan will be borne by the employers and employees when the annual average rate of unemployment is 4 per cent and under ... over and above this rate, the government accepts the responsibility to finance the cost of regular unemployment insurance benefits". We now find that the first part of this statement is incorrect.

Although it is nowhere stated in the narrative part of the text, the fact is that the federal government, whatever the unemployment rate, would bear the full cost of the program from the 26th to 43rd week of benefit payments should these be available to a claimant because of his length of time spent in the labour force. There is a brief and (in the context) somewhat unclear reference to this in Table 8, p. 34, of the White Paper which escaped us. It also appears to have escaped a number of other groups that presented submissions to the House of Commons Committee, as well as the news media. Nor have we seen any public comment on it by government representatives. We therefore thought we should take this opportunity to clarify the situation.

We would stress that this late entry of government financial support into the plan when the unemployment rate is "average" does not alter our view of what the federal government's financial responsibility for unemployment insurance should be (see para. 22-23, pp. 15-17 of our Submission).

The Staff of the Canadian Welfare Council

(1) The major relevant statistics are collected as an Appendix to this statement.

SUBMISSION TO THE HOUSE OF COMMONS
STANDING COMMITTEE ON LABOUR, MANPOWER AND IMMIGRATION

ON

"UNEMPLOYMENT IN THE 70'S"
A FEDERAL GOVERNMENT WHITE PAPER

PREPARED BY THE STAFF OF THE CANADIAN WELFARE COUNCIL

INTRODUCTION

1. Because your Committee allowed such a short time to prepare this submission, it has not been possible for us to undertake a fresh, intensive examination of the topic and to consult with the Council's broad membership. However, since our Council has for a number of decades been actively interested in social insurance, including unemployment insurance, we were able to draw on a substantial body of long-standing recommendations which had been approved by our Board of Governors and our membership. While not all of the views presented here have been explicitly stated by the Council, we believe they are implicit in the policy positions to which the Council has subscribed in recent years, including its⁽¹⁾ Social Policies for Canada, Part I, 1969.
2. We are in general agreement with most of the major proposals of the White Paper, many of them similar to recommendations the Council

(1) The major relevant extracts are attached as an Appendix to this statement.

made as early as 1958 in its statement Social Security for Canada and has repeated and expanded a number of times since. These include: sickness and maternity as conditions of eligibility for unemployment insurance; higher benefit levels; extended coverage; and taxation of benefits and tax relief for contributions. However, we do have reservations on specific aspects of the proposals; these are outlined in section II of this document under "Specific Considerations".

3. Our greatest concern with the White Paper relates to some of the underlying philosophies, general principles and objectives on which the authors have built their case for the future role and function of an unemployment insurance program within the constellation of other income security measures. In stating our fundamental reservations, we may from time to time be taking some of our Council's earlier specific recommendations a logical step further. In a rapidly changing society, even basic policies need to be re-examined to see whether adjustment is required to make them more relevant to the current scene.
4. It may seem ironical, but it is our commitment to the principles expressed in the White Paper which has led us inexorably to raise questions about some of its specific recommendations. For example, we agree wholeheartedly with the White Paper's stated principle of universality in the coverage of the Unemployment Insurance Plan. Acceptance of that principle leads initially to

the extension of the Plan to cover more persons within the labour force, including those whose risk of loss of income through unemployment is admittedly very remote. But this principle of universality, if pursued to its logical conclusion, demands protection against loss of adequate income for all Canadians, not only those currently related to the labour force under certain stipulated conditions. Likewise, the principle of universality as well as reasons of equity and security lead us to readily accept the view that the federal government has the basic responsibility to provide necessary resources to protect against loss of adequate income, and that it should do so with funds raised from the general public through the general taxation system. However, having accepted this principle, there is little logic in applying the responsibility only when unemployment has reached some arbitrary figure, whether 4 per cent or anything else. All this strongly suggests the meshing of the unemployment insurance scheme with, or even its replacement by, a completely universal program such as some form of guaranteed annual income.

5. We are in total agreement with the stated objective that benefits should be more on the basis of need than is now the case. Yet this goal, within the context of a wage-related social insurance program, has a built-in dilemma because wages themselves are not paid on the basis of need, and hence unemployment benefits by their very nature are equally unrelated to need. The increase in benefit

rates proposed in the White Paper is overdue and highly welcome, but it in no way resolves this dilemma of a wage-related insurance program which is most evident in relation to low-income people.

6. These are a few of the general reservations and questions which will be raised in more detail under the rubric of "Broad Issues" in our statement. It is in the light of such reservations that we find ourselves unable to respond enthusiastically to some of the more rhetorical passages in the White Paper. It seems to us that in reality the proposals made deal essentially with specific changes in the unemployment insurance program which has long been in need of reform. However, the White Paper cannot be judged solely in that context; it must also be assessed in relation to its broader claim that "If enacted, the proposed unemployment insurance program, will be the first step in a self-help program which will reflect the more humane and more productive social development policies planned for this decade".⁽²⁾

I BROAD ISSUES

The Piecemeal Approach

7. A major concern is that Unemployment Insurance in the 70's has unfortunately been issued in advance of the long-promised federal

(2) Unemployment Insurance in the 70's (Ottawa: Department of Labour, Queen's Printer, 1970), pp. 6-7. (Hereinafter referred to as the White Paper.)

government's White Paper on social security and social development. As the Council mentioned in its submission to the parliamentary committees studying Proposals for Tax Reform, it is extremely difficult to assess the implications for Canada's social well-being of a set of proposals which are only one part of the grand design for the "Just Society" which the government has proclaimed as its objective. The piecemeal approach is even more surprising for unemployment insurance than for taxation since the former is such an integral part of an overall social security system.

8. The total pattern of these policies needs to be known before judgement can be made as to whether the changed form proposed for the unemployment insurance scheme is well suited to the needs of Canadians at this time or whether in fact some of its objectives can be better met through other programs. A first step taken in isolation can often set a direction into which other steps must fit, whether or not this is desirable. The White Paper makes much of the importance of co-ordination and co-operation among programs, claiming that "The new unemployment insurance plan is based on the assumption that an integrated approach is vital from now on if Canada is to have a coherent and efficient social policy for the (3) 1970's"; and the Minister of Labour in his opening remarks when appearing before this Committee stated that the document had been

(3) White Paper, p. 26.

"prepared in close co-operation with my colleagues in the Cabinet and in particular the Ministers of National Health and Welfare and Manpower and Immigration". However, lacking information about what is proposed for changes in other social programs, it is certainly valid for us - and other members of the public - to wonder whether Unemployment Insurance in the 70's is indeed "a well planned and scrutinized creation in a series of social development programs" which "will allow all Canadians to experience the growing (4) opportunities and rewards of our advancing society".

Functions and Objectives: How Feasible and Appropriate?

9. The problem of the relationship of the White Paper proposals to total social security and development policy is underlined when we consider the two basic objectives that are stated for the new unemployment insurance plan. They are that:

It will continue to provide insurance to cope with the contingency of loss of earnings resulting from unemployment. Benefits will be higher and given more on the basis of need than length of time in the work force. In addition, it will provide insurance against a temporary loss of earnings due to illness or maternity.

* Secondly, and equally as important, it will provide an efficient pipeline to manpower programs and other services designed to improve the employment potential of the individual.

(4) White Paper, p. 9.

In view of these two basic objectives, the new Unemployment Insurance Act will differ radically from the present plan.

Despite this approach, the proposal is still an insurance scheme ... (5)

Problem of Need

10. The reference to "benefits ... more on the basis of need" can only mean that the proposed increase in benefits is intended to support a "standard of living" closer to that achieved through earnings than do the benefits under the present plan; the adequacy of these future benefits in this regard is discussed in section II. As already noted, a wage-related program clearly cannot meet actual need since the wage system does not do so - as the condition of the "working poor" testifies. This problem can be illustrated through the figures on benefits under the proposed plan, recently supplied to this Committee by the Unemployment Insurance Commission. (6)
11. In June 1970, 70 per cent of claimants had gross weekly earnings of less than \$100. Under the proposed benefits a family of four in this income range would receive after-tax benefits over the average claim period ranging from \$17 weekly at the lower end of the scale to \$61 at the top end where previous weekly earnings

(5) White Paper, p. 8.

(6) "Comparison of Present Benefits to Proposed Benefits with Tax Effects, Using Average Claim Duration of 15 Weeks (1969 Experience)".

reached \$100. But even at this upper curve, the benefit rates are well below the poverty line for a family of this size. (7) It is not until gross weekly earnings reach \$145 that benefit rates are sufficient to place a family of four above the poverty line. Thus they and all similar claimants not already below the poverty line will be effectively "insured" into this condition. Recourse to other public financial resources will rapidly become necessary for many of these families.

12. It is clear, in fact, that unemployment insurance cannot and should not be expected to take care of family responsibilities. Indeed, the provision for dependents in a wage-related program is an anomaly; it "... confuses the principle of temporary earnings continuance with that of benefits related to individuals and (8) families". If the program were truly related to need (i.e., scaled to the actual number of dependents) it would in fact provide higher family income for the unemployed than for the employed "working poor" families of similar size. As the Canadian Welfare Council has stated, the equitable answer to dependents' needs must lie in substantially increased family and youth allowances (subject to income tax with the income tax exemption for children eliminated)

(7) Annual income of \$4,410 for a family of four or \$85 weekly; based on the 1968 "revised poverty lines" of the Economic Council of Canada adjusted to 1970.

(8) Appendix, p. 2; section 3, last para.

together with "effective action on a guaranteed income in some form, which takes account of family circumstances ..."⁽⁹⁾

Services to the Unemployed

13. The second basic objective of the revised unemployment insurance program, the provision of "an efficient pipeline to manpower programs and other services designed to improve the employment potential of the individual", is heavily stressed throughout the White Paper. This proposition is considered a benefit "equally as important" as the financial provisions. We find it difficult to grasp just what is envisaged in the proposal.
14. The core of it appears to be the two interviews in Phase 2 of the benefit period.⁽¹⁰⁾ There will be a "light" one at the beginning that "will channel the unemployed person to Canada Manpower Centres and other government services in order to assist him to be reabsorbed into the labour market", and "a more intensive interview toward the end of the phase will determine how well he has taken advantage of the services and whether they were effective". ("Other government services" presumably include the mobility and retraining programs.) "During this phase, the

(9) Ibid., p. 1; section 2, second para.

(10) White Paper, p. 21.

claimant must show he is capable and eager to be employed. For example: a person may become ineligible for future benefits if he refused to take advantage of the services offered to him by other government agencies". "These interviews will be primarily to help the individual. However, they will also serve to identify people who should not be receiving benefits. The effect will be to reduce to a minimum abuses in the present plan due to lack of personal contact".⁽¹¹⁾

15. Presumably the Unemployment Insurance Commission offices have always referred claimants to other services, especially Manpower Centres which are supposed to be the first and key resource for employment counselling and job-finding. But the Centres' records are far from impressive. High hopes were entertained when, as the result of representations from many sources (including organized labour,⁽¹²⁾ the Gill Committee and the Canadian Welfare Council), the National Employment Service was separated from the Unemployment Insurance Commission to become a section under the newly established Department of Manpower and Immigration. Yet despite the enormous and costly increase in staff and staff training, Manpower Centres

(11) White Paper, para. 7, p. 11.

(12) Report of the Committee of Inquiry into the Unemployment Insurance Act (Ottawa: Queen's Printer, 1962).

are still the subject of numerous complaints, not only from the unemployed but from public and voluntary social agencies.

16. Manpower Centres have not achieved the expected reorientation from the old National Employment Service; their chief interest still seems to be finding workers for employers rather than jobs for employees. Their "penetration" of the labour market is low; a minority of employers register vacancies with them, the labour unions have found that most employment is obtained through other means. The "special services" of former days have been abandoned so that there are now no services geared specifically to the socially, mentally or physically handicapped or to the aging - the very people who most require help.
17. We assume that there is no intention of reabsorbing the Manpower Centres into the Unemployment Insurance Commission or of setting up an elaborate counterpart of job-counselling or job-finding services within the Commission which would be wasteful of personnel and funds. Yet there is no indication of intended action for more positive orientation and practices in Manpower Centre services without which the "second objective" of the unemployment insurance plan, insofar as establishing a pipeline to manpower programs is concerned, will be only an empty promise. Unemployment insurance alone cannot solve the problems of an unemployed worker; vigorous employment and manpower policies and programs are also required. In Manpower Centres there is need for far more availability of

information on vacancies (perhaps through mandatory registration of them by employers), for the development of "special services", and for greatly improved selection and training of staff to provide real understanding and skills in the counselling function.

18. The White Paper refers to the use of the unemployment insurance officers' second interview to determine whether the services offered the unemployed individual were effective. ⁽¹³⁾ We would urge that there be an early evaluation of the value of manpower services, to be undertaken by some body outside both the Department itself and the Unemployment Insurance Commission, with a view to developing a more efficient instrument to help the unemployed. This requires a far more sophisticated and skilled approach than now exists to the question of developing incentives to work and of training and retraining - of what, in short, is necessary for the rehabilitation of the long-term unemployed.
19. The scope of the Unemployment Insurance Commission itself in helping people actually to obtain employment is limited (largely referral) and we are concerned that the main function of the proposed interview "in depth" will be the policing of the scheme. Long experience in other programs (e.g., public assistance, and corrections) has convincingly demonstrated that combining policing and rehabilitation rarely if ever works. Controls are, of

(13) White Paper, p. 21.

course, essential, but once the facts of unemployment and availability for work (except for sickness or maternity reasons) have been established, the basic test must be acceptance of suitable employment if it exists. The "eagerness" of the person to do so is a matter of subjective judgement, and its inclusion as a reason for continued eligibility for benefits opens the way to a possible and most undesirable exercise of local administrative discretion. Moreover, the proposed computerized inventory of the unemployed to "be refined to contain as much information as possible for use in various other government programs"⁽¹⁴⁾ has ominous implications. Will the local unemployment insurance officer's judgement of a man's degree of "eagerness" for employment be available to municipalities if he has to apply for social assistance? Finally, while the established appeals procedures against administrative decisions work reasonably well in many instances, the dice are loaded against the appellant for reasons such as lack of understanding of them, fearfulness and lack of confidence to bring a case, lack of the skilled legal advice that the Unemployment Insurance Commission can command, and often the difficulty of actually appearing before the appeal bodies because of distance and cost.

20. The Canadian Welfare Council has stated in connection with services

(14) White Paper, p. 26.

for those on social assistance that "Acceptance of such services should not be a condition of receiving such benefits".⁽¹⁵⁾ We believe the same principle should be applied to unemployment insurance. Services should, of course, be available and offered, and the degree to which they exist and are effectively presented will have important, often crucial, effects on the rehabilitation of unemployed people who cannot take advantage of services that are not known. But as long as the basic conditions of the unemployment insurance plan are met including acceptance of suitable employment the individual's refusal of service (e.g., retraining) should not affect his eligibility for benefits. For practical reasons too, the mind boggles at the time and cost involved in mandatory detailed individual interviews of beneficiaries under a "universal" program, particularly in periods of high unemployment.

Financing the Program

21. The final broad issue we wish to discuss is the joint effect of extended coverage and the proposed method of federal government financial contributions to the unemployment insurance plan, to be related to the rate of unemployment. This is relevant to the White Paper's comment, following its statement of objectives,

(15) Social Policies for Canada, Part I (Ottawa: Canadian Welfare Council, 1969), p. 20.

that "the proposal is still an insurance scheme",⁽¹⁶⁾ and raises questions as to confusion of functions and objectives among various types of income security programs.

22. The Canadian unemployment insurance program has never, of course, been a pure insurance scheme, relying solely on contributions actuarially related to benefits. No social insurance scheme need be so; once it has been accepted as public policy, particularly if it has been made compulsory, it is appropriate and indeed desirable that there be some contribution from the public purse. The reasons for this have been well stated by the International Labour Organization.⁽¹⁷⁾ They include the following:

- a) Fulfillment of the "well recognized responsibility that society has for the welfare of its dependent members, including those who are unemployed and their families". (As a side benefit, without an insurance scheme this responsibility would have to be met through direct social assistance to many of the unemployed; savings on these costs would at least partly offset public expenditures on unemployment insurance.)
- b) Contributions from general revenue share the burden of costs more progressively and fairly among people. (For example, a

(16) White Paper, p. 8.

(17) Unemployment Insurance Schemes (Geneva: International Labour Office, 1955), pp. 186-192.

benefits ceiling, at present in Canada an income of \$7,800, is of course necessary from a financial point of view; it would be highly impractical to provide the same proportion of benefits up to a \$100,000 salary! But the accompanying contributions ceiling produces a regressive "tax rate" that bears more heavily on lower income people.)

c) "It is sometimes not possible or practicable to derive sufficient revenue from contributions paid by employees and employers alone. In this case, it is necessary to have recourse to the general taxing power of the State if the total resources of the scheme are to be brought up to the required level." (The International Labour Office points out that at times of stress this may take the form of loans, in addition to regular public contributions.)

23. At present, the federal government pays from general revenue the administrative costs of unemployment insurance and an amount equal to 20 per cent of the employee-employer contributions; in addition, it has made substantial loans to the Fund in periods of high unemployment. It now proposes to abandon the general principle of public contributions to unemployment insurance and confine itself to assistance when unemployment rises above a certain percentage rate (nationally and/or regionally) after which it will take over complete financing of additional costs out of general revenue. The government acknowledges a commitment to unemployment insurance because of its responsibility for the use of "instruments of economic policy"

(18)
that can create or check unemployment, but apparently this only begins at a selected level. Below that, the scheme is to be entirely employee-employer financed thus losing the advantages of public contributions suggested above.

24. A major concern about the proposal is the level above which the change-over in financing will take place. "A benchmark of 4 per cent based on long term average national unemployment (19) was used to set the lower limit for government contributions". (20) The White Paper adds, and spokesmen are now stressing, that "This is in no way intended as a definition of full employment in this country". (21) However, this is exactly how it is likely to be regarded, and there is real danger that it will become a "respectable" figure deeply entrenched as the level of unemployment that is "acceptable" in our society. Yet even the Economic Council of Canada has suggested 3 per cent as a target goal for the mid-1970's.

25. The Canadian Welfare Council has stated that:

Social security programs alone cannot achieve economic security for all people. Public policies that can produce a dynamic economy capable of supporting full employment, sound manpower practices and adequate wage levels are prerequisites to the Council's recommendations on social security. (22)

(18) White Paper, p. 7

(19) Apparently over the last 10 years.

(20) White Paper, p. 7.

(21) Ibid.

(22) Appendix, p. 1, section 1.

The White Paper itself mentions somewhat casually that "In the 70's, it is fully expected that temporary unemployment will be a possibility for a wider spectrum of the Canadian work force than ever before" and acknowledges that:

... the federal government must tackle unemployment, so it is clear that its policies and programs to solve unemployment and other related programs must be highly co-ordinated if social development programs for Canada in the 70's are to be improved. (23)

While we would not question the sincerity of the government in wishing to improve conditions we wonder what an accepted 4 per cent level of unemployment will do to that incentive to action which all governments consider so important for every other section of the community. Ameliorating the condition of the unemployed is essential. But the first line of defence against unemployment must be the development and implementation of national and regional economic policies aimed at creating maximum employment opportunities, and the prosecution of strong supporting manpower programs.

26. Equally important are the implications of the move to total general revenue financing at the higher unemployment levels, together with the extension of coverage to virtually all wage and salary earners; indeed, the Council has recommended including "all members of the labour force" which would involve the self-

(23) White Paper, p. 7.

(24) employed. Such major involvement of general revenue financing and of people for whom both contributions and benefits are, in many instances, only slightly related to their earnings (leading to the accusation that the proposed extension is in fact a "social tax") certainly raises doubts as to the validity of the claim that "the proposal is still an insurance scheme".⁽²⁵⁾ Indeed, the new scheme has something of the appearance of a guaranteed annual income program, but without its real advantages because of the unemployment insurance's limiting conditions (e.g., applying only to the unemployed) and by its use of a regressive method of financing in its first (up to 43 weeks) stage. We raise the question whether the logical conclusion to which the proposal should be carried is not adherence to the alleged insurance principle but its replacement by some form of guaranteed annual income. The latter program, with its general revenue financing, would ensure the "more equitable distribution of our national wealth"⁽²⁶⁾ supported by the White Paper.

27. The Canadian Welfare Council is deeply committed to the need for measures not only to protect people from loss of income but to provide an adequate standard of living. It has recognized the

(24) Appendix, p. 1, section 3.

(25) White Paper, p. 8.

(26) White Paper, p. 3.

importance of social insurance programs to, among other things, "provide ... protection against all short-term interruptions in earned income", and the continuing need for social assistance as at least a residual program. But it has stated that "the balance among ... (our approaches to income security) must be shifted by accelerating the trend toward programs providing some type of guaranteed 'income floor' as a matter of right and "sufficient to support an adequate standard of physical and social well-being (27) for all individuals and families".

28. The Council appreciates, of course, the many problems in providing an adequate guaranteed annual income, particularly in a country of such regional and urban-rural variations as Canada. It stresses "that the level of payments and the coverage of a guaranteed annual income program will be crucial in determining the extent to which a piecemeal network of other services can be (28) dispensed with". Unemployment insurance in some form may continue indefinitely. But we strongly urge that now is the time to give full consideration to the effect on that program of a guaranteed annual income, in whatever form, particularly in relation to the current proposal for ultimate government responsibility for financing of and for "universal" contributions

(27) Social Policies for Canada, Part I, op. cit., Recommendation 3, p. 29.

(28) Ibid., pp. 28-29.

to the unemployment insurance plan. We cannot, of course, know what specific directions will be indicated for Canada's future total program of social security and social development in the forthcoming White Paper on that subject. But the burning question of a guaranteed annual income can hardly have been ignored, and the government's views on it should at least be available for discussion before decisions are made on the proposals in Unemployment Insurance in the 70's.

The Climate for Change

29. In the final analysis, the success with which Canada tackles its social problems will depend upon the will of the people, their convictions about the need. We wish we could subscribe wholeheartedly to the statement at the beginning of Unemployment Insurance in the 70's: "Canada, however, is not a nation exclusively bent on technological progress and increased affluence. This country believes at least as much in more equitable distribution of our national wealth and the fulfillment of the expectations and potential of all our people".⁽²⁹⁾ Rather, we are forced to take the stand that we did in the Canadian Welfare Council staff submission to the Senate Committee on Poverty in June 1969:

(29) White Paper, p. 3.

Canada as a nation has by no means agreed on the philosophical question of whether we should provide at least an adequate standard of living for all members of our society as a matter of right. To the extent that we continue to equivocate in our policies we will continue to muddle at the administrative and program level. The result will be to continue indefinitely an unnecessarily piecemeal and unplanned approach to our social security and social services system, and to prolong or even perpetuate poverty for a large percentage of Canadians. We are convinced that the present unhappy state of affairs will not change until there is a widespread re-ordering of our values ... (30)

II SPECIFIC CONSIDERATIONS

30. We now turn to a further examination of the White Paper, supplementary or additional to the comments above. Whatever the ultimate role of unemployment insurance in relation to a guaranteed annual income, a basic reorientation of the plan is not likely to be quickly achieved. In the meantime, details of the proposals for imminent change must be assessed as far as possible.
31. As already noted, the Canadian Welfare Council has recommended that unemployment insurance "should be extended to cover all (31) members of the labour force". This would include the self-

(30) Canadian Welfare Council Staff Submission to the Special Senate Committee on Poverty, pp. 46-47 (Ottawa: Canadian Welfare Council, 1969).

(31) Appendix, p. 1, section 3, first para.

employed as well as the wage- and salary-earners proposed by the White Paper. In our view, the arguments for excluding the self-employed are weak, i.e.:

First, they can control their own employment and unemployment; second, each of them is operating a business based on the profit motive. Unemployment insurance is not designed to offer protection against unrealized profits. (32)

In fact, self-employed people cannot necessarily control their employment opportunities for the same reasons cited by the White Paper for other groups - technological and economic conditions or government policies beyond their individual control. Nor do we agree that the way they earn income has any relevance to their need for protection against its loss. Self-employed groups besides fishermen (for whom a special scheme is projected - apparently the "profit" motive is no bar here) are in need of this protection: e.g., small business proprietors. In any case, all Canadian earners should have such protection as a matter of right.

32. We recognize that there are difficulties in applying a social insurance scheme to the self-employed. However, we believe the advantages, including the principle of community solidarity, outweigh the disadvantages. We were therefore pleased to note that the Minister of Labour, when he appeared before this

(32) White Paper, p. 18.

(33)

Committee, agreed to reconsider the matter.

33. Under the present Unemployment Insurance Act, a claimant who has retired on a pension but who continues to be capable and available for work is eligible for benefits, including seasonal ones, up to 75 weeks. Under the White Paper proposals, such a claimant would cease to be eligible for benefits as soon as he has applied for and become entitled to benefits under the Canada or Quebec Pension Plan; he would be considered to have "voluntarily retired" from the labour force. Such people would receive the equivalent of 3 weeks benefits, in lieu of any other benefits under the Unemployment Insurance Act, to tide them over (34) until they actually start receiving the pension.

34. There are undoubtedly people without other resources (e.g., a company pension) who would fare better by continuing to work even though this may lead to a reduction of their benefits under the Canada or Quebec Pension Plan while they are under 70 years of age. We therefore question whether people should be automatically assumed to have "voluntarily retired from the labour force" when

(33) Globe and Mail, September 16, 1970. His reference to a system of voluntary participation by the self-employed, as in some other countries, is worthy of examination. It is certainly desirable to preserve freedom of choice as long as it does not jeopardize the usefulness of a plan for other people.

(34) White Paper, para. 5.

(35)
they receive these pension benefits. If they are genuinely "available for work" they should be eligible for unemployment insurance; otherwise, the 3-week payment would appear to be an appropriate complement to the Pension Plan.

35. We endorse the compulsory inclusion of employees of charitable organizations in the unemployment insurance program and not just because their method of organization and financing is changing. (36) In social programs, people in like circumstances (in this instance, wage- and salary-earners and their employers) should have the same rights, privileges and obligations. All within the same category should be permitted to opt out (which could well destroy the plan) or none.

36. The proposal that the provinces must cover all or none of their employees (rather than as now selecting those they wish) (37) may have unfortunate effects. Their present record of 15 to 53 per cent coverage (mostly the "poor risks") does not augur well for their opting for total coverage. While elimination of "poor risks" would strengthen the financing of the unemployment insurance plan, it would penalize many of those most requiring coverage, and complete "opting out" would, even more than now,

(35) The Canada and Quebec Pension Plans mature on January 1, 1976, not 1971, as stated in the White Paper, p. 10.

(36) White Paper, p. 17.

(37) White Paper, p. 18.

deny this protection to a not inconsiderable group in the provinces' populations. We understand that the problem is constitutional; we urge that it be resolved in the interests of the human beings whose welfare is at stake.

Eligibility and Benefits

37. The recognition of sickness and of maternity as causes of unemployment eligible for unemployment insurance is long overdue and most welcome; it has always been an anomaly that only sickness occurring during unemployment was covered. However, while a limited duration for maternity benefits is reasonable (being normally predictable), we fail to see why benefits as a result of sickness should be limited to 15 weeks when full benefits can be claimed for other causes. Indeed, those falling sick during unemployment will be worse off than now when they can claim up to the full 51 weeks. Possibly 15 weeks is considered the normal duration of sickness. If so, extension of the benefit to the full 51 weeks would cost little extra and would correct a most inequitable situation; we strongly urge that this be done. (38)
38. The proposed conditions of entry that are related to length of time in the labour force are an improvement, especially with regard to the special 8 - 19 weeks provision. This will be

(38) While the sickness provision is a step forward, it should be noted that its application would always be limited by the number of weeks benefits "earned". A sickness cash benefits program as recommended by the Canadian Welfare Council (Appendix, p. 1, section 2) is still required to cover long-term loss of earnings for all members of the labour force.

particularly helpful to young people entering the labour market in this period of uncertain employment and to unskilled workers prone to intermittent employment. However, the definition of an employment week as one in which at least \$25 was earned and the elimination of half-weeks may well work hardship on certain regular but low-income earners: e.g., a married shop assistant who needs to work regularly on a part-time basis to make ends meet but can only do so $2\frac{1}{2}$ or 3 days a week and is at a minimum wage bringing in less than \$25. (39) On the other hand, many people earn more than \$25 in only 4 hours. Perhaps a definition of an employment week by time units rather than by earnings would be a fairer approach.

39. The proposed raised level of benefits is encouraging (66 2/3 per cent of income up to \$100 a week, instead of 43 per cent up to \$53). However, we would express the following reservations:
- a) The proposal does not go far enough. In Social Policies for Canada, Part I, the Canadian Welfare Council stated its views as follows:

(39) At present, weekly earnings of less than \$20 a week are counted as a half-week; prior to June 30, 1968, a full week meant earnings of \$9 or more. Unemployment Insurance Act, 1969, section 45, sub-section (7).

Programs such as unemployment insurance, and workmen's compensation to a considerable extent, provide income maintenance for relatively short-term contingencies. In these circumstances it is in the interests of the economy, which benefits from an uninterrupted stream of earnings, as well as of the individuals and families concerned, to protect the standard of living of the unemployed. The ultimate aim during temporary interruption of earnings (e.g., through unemployment or disability) should be continuing income at the level of previous earnings. In a society where work confers status and in which the purchase of goods and services is encouraged, such short-term measures are unlikely to act as a disincentive to work. In long-term disability situations, benefits should be related to adequacy based on current standards of living and cost of living, rather than to prior earnings ... In the Council's view, temporary earnings-related benefits should be as high as practical in relation to prior covered earnings, whether there are dependents or not. (40)

b) The word "practical" refers, of course, to what is financially possible, including some ceiling level. The ceiling would have to "be adjusted to reflect changes in average income"⁽⁴¹⁾ and this should be on a regular automatic basis, not intermittently at the will of the administration.

(40) Appendix, p. 2., section 3, first para.

(41) White Paper, p. 28.

c) Against this background, the adequacy of the proposed benefit (quite apart from actual family need) requires examination. Even for a temporary period (which may in fact last a year) a relative drop of 1/3 or even 1/4 in income can be disastrous. A Council study of lower income families in Hamilton, Ontario, in (42) 1967 revealed total savings of zero to less than \$500 for two-thirds of the sample. Families in the sample earning \$5,000 or under at that time were likely to spend more than 80 per cent of their gross income on essentials of food, clothing and shelter. The Economic Council of Canada has suggested that where a family is using up a good deal more than half its income on essentials, that family is likely to be in straitened circumstances. These families soon exhaust their financial reserves (if any) and they cannot for long postpone such obligations as payment of rent or debts. Thus unemployment insurance alone provides inadequate protection of their "standard of living" even at the most welcome higher rates proposed.

d) Another factor in relation to the adequacy of benefits is the effect on them of income tax. The Council supports taxation (43) of the benefits, and certainly the proposed levels even after

(42) Consumer Credit and the Lower Income Family (Ottawa: Canadian Welfare Council, 1970).

(43) Appendix, pp. 2-4, section 4.

tax will be higher than now. However, the net effect on many will be that they do not in fact receive 2/3 or 3/4 of their earnings. Since the tax will be deducted from the benefit at the time of payment, the possibility of an adjustment at the end of the tax year, and the modest offset value of previous deductions of unemployment insurance contributions from tax, will be small consolation to the unemployed person at the time of his greatest need for cash resources.

40. We question certain aspects of the proposals on duration of benefits.

a) We are concerned at the extension of the waiting period from one to two weeks. Possibly the lost benefit is compensated for later but even one week without actual income has often created hardship and two weeks would double this hazard.

b) As we understand the White Paper, benefits will only be available for up to 43 weeks a year unless the national or regional rate exceeds 4 per cent.⁽⁴⁴⁾ This is a reduction from the present 51 weeks possible duration of benefits whatever the unemployment rate. Perhaps the rationale for the change is that no one will remain unemployed for more than 43 weeks except when the unemployment rate rises. We would question this, especially if such a high "benchmark" as the 4 per cent rate is

(44) White Paper, Table 8, p. 34.

established. We believe that the maximum period of entitlement should remain at 51 weeks whatever the level of unemployment. Since the average claim duration appears to be 15 weeks, the additional cost of extending protection should not be too great.

c) We are at a loss to understand why the increased benefit for dependents is not available from the start of payment of claims as it is now. As long as special provision for dependents remains in the Plan, equity demands that it be present throughout. The need for it will certainly be present from the beginning of ceasing to earn, and a waiting period of from 5 to 7 months before receiving the additional benefit would be most unjust. We would also draw attention to a curious feature of the proposed dependents benefit which is that one group, the people with least attachment to the labour force, receive it after a shorter period of unemployment than do the others. People with 8 - 19 work weeks in the preceding year can begin to draw the extra benefit in the twenty-first week of unemployment while those with 20 weeks (45) or more must wait until the twenty-eighth week. If the proposal is accepted as it stands, this anomaly should be reviewed.

Contributions

41. We are not in a position to judge the technical validity of the proposed rates of employee contributions; certainly, the lowered rates as a result of widening the coverage of

(45) Ibid.

unemployment insurance will be most acceptable to those in the present program. However, the reference to its "depending on the average unemployment rate"⁽⁴⁶⁾ requires clarification. Also, what is the justification for a reduced rate of premiums for new categories of people entering the scheme?

42. We strongly question the proposal for experience-rating of employer contributions. There is fallacious reasoning in the White Paper's arguments for it which contradicts other views it puts forward. For example, it is pointed out in the introduction (and elsewhere) that unemployment is not within the control of provincial or local governments, yet it is suggested that individual employers can control it. Great play is made of the virtue of pooling risks in employee contributions "because it is unfair to place a burden on an employee who has had to accept high-risk unemployment".⁽⁴⁷⁾ Yet a penalty is placed on the employer who accepted, willingly or unwillingly, a high risk enterprise - and what would happen to our economy if none of them did?

43. As well, implementation of the proposal would probably require a new army of bureaucrats. And what, in the end, would be the benefits? The United States is the only country that includes experience-rating in its unemployment insurance plan, and the

(46) White Paper, p. 23.

(47) White Paper, p. 23.

Gill Committee reported "We have not observed any decisive evidence to substantiate the claim that the operation of a merit rating system would have any significant effect in reducing unemployment".⁽⁴⁸⁾ Moreover, the Committee notes some undesirable effects, including:

... some evidence to suggest that the existence of merit rating encourages undesirable practices on the part of some employers. They may tend to oppose claims merely for the sake of improving their position with respect to merit rating. They may oppose socially desirable extensions of the unemployment insurance scheme for the same reasons, and they may indulge in practices relating to hiring and firing of employees designed to minimize the effect on the unemployment insurance plan. (49)

44. In view of these considerations, we urge that experience-rating not be included in the unemployment insurance plan.
45. The proposed changes in the federal government's contributions to the plan have already been discussed in detail.⁽⁵⁰⁾

(48) Report of the Committee of Inquiry into the Unemployment Insurance Act, op. cit., p. 143.

(49) Ibid., pp. 144-145.

(50) See para.'s 21-28, pp. 14-21 above.

EXTRACTS FROM SOCIAL POLICIES FOR CANADA, PART I

CANADIAN WELFARE COUNCIL, OTTAWA, 1969

1. Overall Strategy; p. 28:

Social security programs alone cannot achieve economic security for all people. Public policies that can produce a dynamic economy capable of supporting full employment, sound manpower practices and adequate wage levels are prerequisites to the Council's recommendations on social security.

2. Recommendation 7; pp. 35-36: Social security measures are required to protect all those whose income is interrupted by sickness, or by temporary disability including childbirth.

For employee groups, these new social security measures might take the form of one or more social insurance programs or, alternatively, involve obligations imposed on employers by legislation. Effective action on a guaranteed income in some form, which takes account of family circumstances, would permit the insurance programs to be entirely earnings-related. For self-employed groups, especially those in seasonal work, a social insurance plan is difficult to apply, and the answer may have to come through some form of guaranteed income or through a special income supplement as recommended for fishermen by the Gill Committee. (36)

In a submission to the Royal Commission on Taxation, the Council took the position that the income tax should be reviewed and, where necessary, revised so that "it neither encourages nor discourages paid employment by married women". A similar principle is applicable to social security measures. The part of Recommendation 7 that proposes income protection during childbirth is intended to fill the major remaining gap in the coverage of women in the labour force under Canada's social security system.

(36) Report of the Committee of Inquiry into the Unemployment Insurance Act (Ottawa: Queen's Printer, 1962).

3. Recommendation 8; p. 36: Unemployment insurance and workmen's compensation should be extended to cover all members of the labour force; and the level of benefits under these programs should be more closely related to loss of earnings.

3. The proposal concerning benefit levels under unemployment insurance and workmen's compensation assumes treatment of social security benefits as income for tax purposes. Once they are subject to tax, benefit levels can and must be increased substantially. Programs such as unemployment insurance, and workmen's compensation to a considerable extent, provide income maintenance for relatively short-term contingencies. In these circumstances it is in the interests of the economy, which benefits from an uninterrupted stream of earnings, as well as of the individuals and families concerned, to protect the standard of living of the unemployed. The ultimate aim during temporary interruption of earnings (e.g., through unemployment or disability) should be continuing income at the level of previous earnings. In a society where work confers status and in which the purchase of goods and services is encouraged, such short-term measures are unlikely to act as a disincentive to work. In long-term disability situations, benefits should be related to adequacy based on current standards of living and cost of living, rather than to prior earnings.

At present, unemployment insurance provides higher earnings-related benefits for beneficiaries with dependents and thus confuses the principle of temporary earnings continuance with that of benefits related to individual and family needs. In the Council's view, temporary earnings-related benefits should be as high as practical in relation to prior covered earnings, whether there are dependents or not.

4. Recommendation 10; pp. 37-38: Social security benefits are a type of "income" and should be added to other income for purposes of personal income tax, provided that other kinds of income that currently escape taxation are also included.

The purpose of social security benefits is to provide income in a variety of contingencies. Since other types of income (e.g., wages, salaries, profits, interests, and rents) generally are subject to progressive income tax, (41) equity requires that social security benefits normally be regarded as income for tax purposes. This treatment permits consistent design of social security benefits in relation to the other elements of income. At the same time, with progressive income taxation, it ensures that the after-tax advantage of the benefits is maximized for the least fortunate since the greater the total of other income present, the higher will be the marginal tax rates applicable to the social security benefits.

It is essential, of course, that taxability of social security benefits which are now exempt should only be implemented in conjunction with an increase in benefit levels which at least prevents a decline in after-tax

(41) Other "kinds of income" that are not so taxed include capital gains, certain types of expense allowances and company-provided fringe benefits.

4. benefits. Indeed, the objective of benefit taxability is to attain a higher after-tax benefit pattern which is more consistent and more equitable than the present benefit structures.

In order to avoid double taxation, the treatment of social security benefits as income for tax purposes would have to be combined with deduction for tax purposes, from benefits or other income, of individual contributions, if any, to social security programs.

It may be considered desirable, for practical reasons, not to apply the taxation principle to social assistance payments which are based on assumed or measured calculation of individual needs. It is possible theoretically to include the amount of tax liability on social assistance payments in calculating the individual's budgetary deficiency and the resulting amount of his assistance payment. In practice, such an attempt to achieve absolute equity among the beneficiaries of social security programs who are also taxpayers may not be worth the administrative effort involved.

5. Recommendation 11; p. 38: Social security programs should be financed from general revenues except in the case of earnings-related social insurance where the required revenues should normally be raised from earnings-related contributions.

Except in the case of earnings-related social insurance programs, all social security benefits should be financed out of general revenues. Guaranteed income programs (whether in the form of flat-rate demogrant or negative income taxes) and social assistance provide benefits the objective of which is clearly redistributive. Any form of financing which is less progressive than the general taxation structure serves to lessen the actual degree of income redistribution achieved. In this sense these programs should all be regarded as negative income taxes without special financing sources. In other words, benefits which are not earnings-related are directly analogous to taxable tax credits which result in net payments to individuals and families if they exceed the income taxes otherwise payable.

Since earnings-related social insurance programs provide benefits which vary directly with prior covered earnings, equity requires that general revenues should not be used in their financing. The appropriate financing of such programs takes the form of payroll taxes levied on employers alone (as for workmen's compensation) or shared with employees (as for unemployment insurance). Nevertheless, considerations of public interest may require a contribution from general revenues to such programs.

